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50X1-HUM

1. Although Moscow policy regarding the disposition of USIA has apparently not been settled, and statements made by USIA officials are probably mere speculation, there are some indications that USIA officials are now awaiting specific instructions. Meanwhile, large advertising campaigns have been cancelled, virtually no one in USIA is authorized to make expenditures, and systematic personnel reductions are in progress throughout USIA administrations and at some USIA-controlled firms. It can be concluded from various indications, that USIA intends to retain only its most reliable employees for the transition period.* Most workers discharged to date have been non-Communists, and in many cases those workers who were hired most recently are being released first, probably because the final payment required by Austrian law varies greatly in accordance with length of service.* Dismissed workers are told that they are strictly forbidden to re-enter USIA offices or installations. USIA seldom gives advance notice of dismissal, and workers are given six weeks' pay in accordance with prevailing Austrian law. USIA officials usually try to persuade the employee to settle for four weeks' terminal pay, since they point out that his pay continues while he is looking for new employment. [redacted] 50X1-HUM

[redacted] the Workers Supply Service and the Kooperativa were transferred from USIA to Soviet military authorities in late May or early June 1949 primarily to facilitate the dismissal of a number of workers at a minimum expense.** Soon after this transfer, about half of the workers in these units were discharged from Soviet employ. Apart from the savings effected by this measure, the Soviets may have intended to curb widespread black marketeering on the part of the Kooperativa. The same motivation probably underlies a recent USIA communication to the Austrian Government to the effect that all cigarette imports from Yugoslavia and Bulgaria, with the single exception of amounts destined for distribution to Soviet personnel, will be discontinued on 1 August 1949, and sales of cigarettes to USIA employees will also be

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50X1-HUM

2. In recent weeks, the sales offices of Avtovelo, A/O Kabel, A/O Kraska, and other industrial departments of USIA have been getting rid of all stocks of raw and partly-manufactured materials which are not allocated to current production quotas.*** The Avtovelo sales office has been negotiating with three firms for the sale of large quantities of raw material. Avtovelo has arranged to sell 170.5 tons of material at a total price of 711.720 schillings

*** Items being sold by Avtovelo are: 50X1-HUM

<u>Item</u>	<u>Schilling Price per Kilogram</u>
5,28 kilograms of band iron	14
20,67 kilograms of tool steel in sheets, used in the manufacture of knives	5
5,850 kilograms of duraluminum in rods and pipes	6
4,300 kilograms of steel pipe sheetings	2
84,300 kilograms of forged steel	3.65
50,000 kilograms of steel	3.65

Avtovelo has also negotiated for the sale of 5,000,000 shotgun shells with paper jackets

50X1-HUM

The shells are complete with caps and brass bases coated with galvanized iron. Since these shells have been in stock for almost two years, a number of them may well be defective. The sales price is 160 schillings per thousand. In addition, the "Austria" firm is purchasing 2,887,000 caps at 147 schillings per thousand. Crating costs will be 27,500 schillings. The total contract amounts to 1,251,889 schillings, of which an estimated two-thirds will be clear profit for the Avtovelo Sales Office.

50X1-HUM

"Karuko" recently purchased a large stock of miscellaneous steel from "Kromar" A.G. but discovered upon delivery that all material of any value had been previously removed. Although all of these transactions have been agreed upon, TIKHOMIROV, General Director of USIA, has refused to give his approval. PSHEINICHNIKOV, recently appointed head of the Avtovelo Sales and Purchases office, is trying seriously to comply with orders and has tried to obtain TIKHOMIROV's approval for these lucrative transactions. TIKHOMIROV/PSHEINICHNIKOV allegedly informed PSHEINICHNIKOV that he is not permitted to sell USIA products to

50X1-HUM

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CENTRAL INTELLIGENCE AGENCY

50X1-HUM

tries; also, USIA cannot sell scrap or semi-manufactured steel within Austria without the consent of the Austrian Government.***** On 23 June, SHEVCHENKO, Chief of the USIA Central Commercial Bureau, informed PSHENICHNIKOV that he should limit his operations to the sale of small items derived from the current production of Avtovelo firms, leaving the major transactions to the Central Commercial Bureau. SHEVCHENKO claimed that he could obtain 1,000,000 schillings merely by signing an export permit for 1,000 tons of scrap. [redacted] this statement may be an exaggeration, but [redacted] it is generally known among USIA officials that the Central Commercial Bureau receives a commission of .12 schillings per kilogram of scrap on every export permit granted.

50X1-HUM

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Central Commercial Bureau

3. The Central Commercial Bureau has already released a number of workers employed at its warehouses, and recently 12 workers were dismissed from the USIA warehouse at Fernkorngasse 53, Vienna X. The entire third floor of the Bureau's offices at Stalinplatz 10 has been vacated. At present, unreliable Communists as well as Austrian employees, suspected or charged with corrupt practices, are being removed from the Central Commercial Bureau. One GOTTLOWER and the shop steward chairman, FITZLER, both employees of the Foreign Trade Section of the Central Commercial Bureau, have been dismissed on charges of embezzlement and bribery.***** the Soviets are making a concentrated effort to form a reliable Communist staff to operate the Central Commercial Bureau during the transition period while USIA is being dissolved and to take over subsequently any cover firm which may be designated to replace the Central Commercial Bureau. USIA's price research section, which was transferred to the Central Commercial Bureau in the spring of 1949, has now been completely dissolved.

50X1-HUM

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4. The Central Commercial Bureau is now trying to speed up the sale of USIA stocks of scrap.***** A number of its commercial agents have been directed to sell about 4,000 tons of steel, rods, bands, and other items. USIA is trying to unload this scrap as semi-manufactured steel at 1.5 schillings per kilogram instead of selling it at the prevailing rate of .55 schillings per kilogram for first quality scrap, or .15 schillings for poor grade scrap. At present, any Soviet firm wishing to dispose of scrap must have prior approval from KACHUEV and KOMENEV, two Soviet inspectors now assigned to the offices of Eisen- und Stahl A.G., who seem to have the final authority on all questions pertaining to scrap.***** Recently, DDSG sought their permission to raise a sunken barge.

Construction and Building Materials Administration

5. The Construction and Building Materials Administration of USIA has stopped purchasing all raw materials, even the most essential; some machinery used by the USIA-firms controlled by this administration is now being sold for schillings directly from the plant installations while other machinery is being collected by USIA for shipment to Eastern Germany or the Soviet Union. USIA has not yet compensated the USIA firms for this machinery.***** A number of employees of Bahnbedarf A.G., USIA firm supervised by this administration, have been released, and since 7 June the Soviet Director of this plant has refused to sign any checks for payment of Bahnbedarf's debts to non-USIA firms.*****

50X1-HUM

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50X1-HUM

[REDACTED]

The Soviet directors of Klosterneuburger Holzindustrie G.m.b.H., Sager and Woerner, and Philip Holzmann A.G. have also refused to pay debts to non-USIA firms.

50X1-HUM

Electrical Industry Administration

6. On 19 May 1949, the USIA-controlled firm, C.P. Goerz, was transferred from Avtovelo to A/O Kabel, USIA's Electrical Industry Administration. [REDACTED] the financial problems arising from this transfer of authority from one USIA administration to another are typical USIA administrative inefficiency. During the winter of 1948-1949, Avtovelo purchased approximately 2,000 surplus volt ammeters from Goerz.***** In order to finance this purchase, Avtovelo borrowed about 2,000,000 schillings from the Soviet Military Bank. Avtovelo's debt to the Military Bank was not turned over with the volt ammeters as a part of the administrative transfer of C.P. Goerz. To date, Avtovelo has not made any payments of principal or interest on this loan, and as a result the bank has blocked the Avtovelo account. Avtovelo is now having difficulty in meeting current operating expenses. At the same time, C.P. Goerz is confronted with the serious problem of finding a market for its large stocks of surplus products [REDACTED]

50X1-HUM

50X1-HUM

50X1-HUM

Production of Sulfuric Acid

8. Production of sulfuric acid at the Donau Chemie plant in Liesing is now virtually at a standstill because of a breakdown of the ovens for roasting pyrites. As a result, Soviet-controlled oil refineries and such USIA firms as "Kromag" A.G. have been forced to draw on reserve stocks of sulfuric acid held by various USIA-controlled plants.***** Donau Chemie is now supplying USIA firms only the exact quantity of sulfuric acid needed to meet annual production quotas. Some sulfuric acid has been acquired from a non-USIA firm [REDACTED]

50X1-HUM

USIA Personnel

9. The recent departure of USIA General Director MALAVIN and his replacement by TIKHOMIROV were handled very quietly. TIKHOMIROV was assigned to MALAVIN's office for about three weeks, allegedly to work on a new commercial plan, and when MALAVIN left, TIKHOMIROV succeeded him without any official introduction. A rumor that MALAVIN is now supervising Austrian affairs in Moscow, has been confirmed [REDACTED] *****
10. A few weeks ago, a group of Austrian officials from the USIA-controlled firm of Sager & Woerner went to the offices of the KPO's Central Committee to protest against anti-Communist activities of a factory foreman. The group was received by Franz HONNER and one MITREGGER who allegedly mediates between the Central Committee and USIA. MITREGGER allegedly refused to take punitive

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MITREGER stated that any contemplated action was useless in any case, since USIA planned to return all unprofitable small enterprises to their original Austrian owners in the near future. He did not specify which small enterprises were in question.

50X1-HUM

Page 1

to staff SMV units with reliable Communists.

50X1-HUM

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Comment: [redacted] Cooperativa (Cooperatives) are Soviet army-controlled purchasing [redacted] base for both Soviet military and civilian personnel in Austria. Cooperativa has [redacted] independent organizations associated with USIA. [redacted]

50X1-HUM

Page 2

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Comment: [redacted] a commission had been established by the Construction Materials Administration of USIA to assess all Soviet property controlled by this administration and to determine what materials and equipment are to be sold outright, repaired, or shipped to the USSR.

50X1-HUM

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Comment: The steel prices, fixed at 3.65 schillings per kilogram by the Avtovelo Sales office, clearly indicate USIA's intention to make a quick cash profit. The current market value for other 50,000 kilograms of steel listed is 0.02 schillings per kilogram for the 50,000 kilograms of steel listed.

Comment: The exact identity of this firm cannot be established in available reference materials.

Page 3

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Comment: TIKHOMIROV's statement is probably an equivocation, since the sale of steel within Austria by the Soviets, is not subject to restriction by the Austrian Government.

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Comment: Addendum: [redacted]

50X1-HUM

[redacted] serves to clarify the organizational chart of USIA, given [redacted] Chief of the Commercial Department of USIA is SMURUZHENKOV; [redacted] successor, is General Director of the Central Commercial Bureau, Vienna IV, Stalinplatz 10.

Comment: GOTTLINGER may possibly be identical with one GOTLOBER [redacted] arrested by the Soviets on 14 June 1949 on charges of having embezzled 2,000,000 schillings.

50X1-HUM

Comment: This move on the part of the Central Commercial Bureau to accelerate the sale of USIA scrap materials may well be the immediate result of a recent scrap scandal which was uncovered and revealed to the press by Dr. PETER-LUNGER, Chief of the State Police. Recent newspaper accounts have given widespread publicity to the corrupt practices of USIA, Austrian government officials, black marketeers, the Scrap Dealers Association, and [redacted] intermediaries handling scrap transactions in Austria. [redacted]

50X1-HUM

Comment: Recently, it was reported that PRITZGER, Soviet Director of Eisen und Stahl A.G., had been delegated to supervise the cutting of all material scrapped by USIA's Construction and Building [redacted]

Comment: [redacted] SIDOROV, Director of USIA's Construction Materials Administration, had allegedly stated that the best machinery is scheduled for repair and shipment to the USSR within the next three years.

50X1-HUM

Comment: [redacted] USIA intends to cut the Bahnbedarf staff down to 10 or 20 persons. [redacted]

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